

## **The Relationship between Conditional Conservatism in Accounting and Firm's Profits Margin among the Companies Listed on the Tehran Stock Exchange**

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### **Abstract**

This study investigated the relationship between conditional conservatism in accounting and profit margins of listed companies in Tehran Stock Exchange for the years 2008 to 2011 (a period of 4 years old) pays. For this purpose, a definition of theory and data about 156 companies were collected. This study was conducted to measure conditional conservatism index of Ahmad and Dolman model (2007). Kolmogorov-Smirnov and Pearson correlation coefficient were used for the analysis. The findings of this study show that there is a statistically significant relation between the conditional conservatism in accounting and profit margins of listed companies in Tehran Stock Exchange although the intensity of this relationship is weak.

**Keywords:** Ahmed and Dolman (2007), Profit margins, Conditional Conservative

### **Introduction**

The theoretical concepts of financial reporting is to provide information and summarize the purpose of providing financial statements and financial situation, entity's financial performance and financial flexibility for a wide range of users of financial statements, which can be helpful in making economic decisions. The financial statements of the entity's information indicate that users are released to the public. Users of financial information are very diverse. In fact, financial information is useful to all users who have had their quality. As can be seen , the original quality financial information is reliable and relevant.

Traditionally conservative "does not detect any benefit, but the identification of all losses" is expressed (Rezazadeh and Azad, as cited in Blyas, 1924). In the accounting literature, two important features of conservatism have been studied. First, there is bias in the presentation of the book value of less than its market value by Ahlsvn (1995). Second, the tendency to accelerate the recognition of gains and losses and deferred identified by Basu (1997) is presented. Watts (2003) stated that conservatism is needed to identify the benefits versus harms. The Statement of Accounting Concepts No. 2 describes conservatism, which stated that if two estimates of amounts receivable or payable in future, there is one and the probability of both is the same, and conservatism dictates using the less optimistic estimate (Financial Accounting Standards Board, 1980, as cited in Bani, 2014).

### **Review of literature**

Apparently in Iran, so far no direct research has been done on conditional conservatism. But there is some research in this area. Ball and Kothari (2007) used an econometric model to examine the validity of the model presented Basu measure of conservatism. They also were absent when the asymmetry of gains, the benchmark Basu has no bias. They also described the method of econometric analysis done by Roychodhary and Watts (2007), who have expressed that they expected a negative relationship between the ratio of market value to book value of equity and the asymmetry measure of conservatism. In another study done by Buhid (2007, as cited in Biddle et al, 2012), there was a conservative effect on borrowing costs of debt, stating that the cost of debt influenced by conditional conservatism and unconditional conservatism

is less affected in those firms adopted the practice of conditional conservatism, and debt costs are far lower than other companies.

### Research Methodology

In order to collect the required data, survey research methods have been used historically. The theoretical discussion on library resources including books, magazines and specialized sites accounting were used for data collection. Spatial scope of this study includes those companies accepted in Tehran Stock Exchange within the year 2008-2011. The target population consists of companies having the following conditions:

1. Companies that fiscal period they will be end of March each year.
2. Companies that are not traded in the period stops.
3. Companies that have been audited financial statements.
4. The company's financial statements in the database Tehran Stock Exchange <http://www.codal.ir> address are recorded.

In order to get the information in the financial statements of listed companies in Tehran Stock Exchange [Http://www.codal.ir](http://www.codal.ir) site was used. Information about the conditional conservatism index model and Dolman A. (2007), and the profit margin were obtained. Then, output the information to Excel software testing and analysis in SPSS 20 software was used for analyzes.

### Variables

Variables in this study are based on the role that can be divided into two categories:

The independent variable is the conservatism of the condition and the model Dolman A. (2007), inspired by the Hine and Gioly's model. Accruals and more emphasis has been placed on the Index of Income representing a conservative approach. The dependent variable is the firm's profit margin.

### Research hypothesis

There is a significant relation between conditional conservatism in accounting based on Dolman the Model A. (2007) and corporate profits.

### Research hypothesis testing

Given that most statistical tests assuming normal distribution of the observations, before proceeding to statistical analysis, it is better to determine the normality distribution of variables. To do this test, Kolmogorov - Smirnov analysis was used. If this test is less than 5% significance level, the hypothesis will be rejected at the 95% confidence level.

**Table 1. Kolmogorov - Smirnov for testing normality distribution**

		Profit margins	Conditional conservatism
N		147	156
Normal Parameters <sup>a,b</sup>	Mean	.0465	.0000
	Std. Deviation	.43912	1.00000
Most Extreme Differences	Absolute	.072	.129
	Positive	.066	.129
	Negative	-.072	-.116
Kolmogorov-Smirnov Z		.870	1.610
Asymp. Sig. (2-tailed)		.435	.011
a. Test distribution is Normal.			
b. Calculated from data.			

Given that the amount of sig is greater than .05 for both the variable, we can conclude that distribution of the data is normal. The present study examines the relationship between two variables, so we used Pearson's test. In this test, a Pearson correlation coefficient is greater than zero, less than zero if the direct and inverse relationship. The closer the correlation coefficient is to 1, the more the relationship between variables (direct or reverse) and the closer to zero, the weaker the relationship between the variables.

**Table 2. Pearson correlation coefficient**

		Conditional conservatism	Profit margins
Conditional conservatism	Pearson Correlation	1	-.448**
	Sig. (2-tailed)		.000
	N	156	147
Profit margins	Pearson Correlation	-.448**	1
	Sig. (2-tailed)	.000	
	N	147	147
**. Correlation is significant at the 0.01 level (2-tailed).			

The value of the Pearson test (Table 2), equal to -0.448, which indicates that there is an inverse relationship between two variables. Thus, an increase in conditional conservatism, a decrease in profit margins may take place and the less the conditional conservatism, the more the profit margins.

### Conclusions

Based on the results of tests conducted on samples and data, the research findings indicate that there is a weak inverse relationship between the conservatism of Ahmad and the 2007 model conditional on profit margins. In other words, conditional conservatism and the the Model A. (2007) on the Profit margins of listed companies in Tehran Stock Exchange is influenced and increasing conditional conservatism may lead to a reduction in the rate of corporate Profit margins and reducing Profit margins, may lead to an increase in the level of conditional conservatism.

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